



# INTENDED USE PLAN CLEAN WATER STATE REVOLVING FUND

STATE FISCAL YEAR (SFY) 2024  
FEDERAL FISCAL YEAR (FFY) 2023



**Clean Water State Revolving Fund  
Draft Intended Use Plan  
June 27, 2023**

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### Introduction

In 1987 Tennessee General Assembly passed the Wastewater Facilities Act and established the Tennessee Clean Water State Revolving Fund (CWSRF). The Tennessee Department of Environment and Conservation manages the CWSRF through the Division of Water

Resources in the State Revolving Fund (SRF) program. The CWSRF provides low-interest loans to local governments and publicly-owned treatment works for wastewater and stormwater infrastructure improvement projects. Since its creation, the CWSRF Loan Program has provided hundreds of millions of dollars in assistance to Tennessee communities. The CWSRF Loan Program provides low-interest loans and technical assistance to cities, counties, utility districts, and wastewater and energy authorities across the State for planning, design, and construction of wastewater infrastructure projects. The CWSRF Loan Program supports TDEC's mission to protect and promote human health and safety and to protect and improve water quality across the state by helping communities afford safe, sustainable, and resilient water systems. The CWSRF Loan Program is designed as a federal-state partnership program to assist public water systems (PWS) with an independent source of low-cost financing for a wide range of water quality infrastructure projects. The program was created through the 1987 Amendments to the Clean Water Act (CWA), which authorized the US Environmental Protection Agency (EPA) to establish a CWSRF loan program to further the protection of public health and the water quality objectives of the CWA.

The EPA awards a Clean Water Capitalization Grant annually to the State. The State obligates its federal funds allocation and 20% state match to provide financing to wastewater treatment systems for planning, planning and design, and construction projects that

#### Elements of the Clean Water State Revolving Fund Intended Use Plan:

TDEC SRF long term and short-term goals

The financial status of the Clean Water SRF loan program

Description of the methods and criteria used to distribute funds

Automated Standard Application for Payments (ASAP) Schedule

Priority Ranking List (PRL) for 2023

Description of non-point source (NPS) activities eligible for assistance under Section 319 of the CWA

TDEC's new Small and Disadvantaged Community program

TDEC's new Ability To Pay

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include (but are not limited to): plant replacement and upgrade; collection system installation, repair, and upgrade; treatment; storage; water reuse; green infrastructure; energy optimization; stormwater management; and resilience. These funds are repaid over time, ensuring the long-term viability of the CWSRF Loan Program.

Section 606(c) of the CWA requires each state to annually prepare an Intended Use Plan (IUP) to outline the use of grant funds awarded to the state and to describe how those uses support the goal of protecting public health and the environment.

TDEC's [Clean Water IUP](#) is the planning document detailing how the federal fiscal year (FFY) 2023 appropriations for the CWSRF loan program will be used. The State of Tennessee's Capitalization Grant allotment for the FFY 2023 CWSRF loan program's base dollars is \$10,897,000. The State is required to provide a 20% match of federal funds or \$2,179,400 to receive the full Capitalization Grant allotment. The EPA Capitalization Grant plus State match will provide an expected \$13,076,400 in funds available for CWSRF projects in SFY 2024.

In addition to the base allotment provided in FFY 2023, Congress passed the Infrastructure Investment and Jobs Act of 2021, also known as the Bipartisan Infrastructure Law (BIL). The BIL provides additional funding to strengthen the nation's drinking water, stormwater, and wastewater systems. More than \$50 billion will be invested in American water infrastructure over a five-year period. This funding is structured to finance two distinct clean water areas:

- Provide general supplemental funding
- Address emerging contaminants

This additional funding will finance water infrastructure projects that treat and eliminate emerging contaminants of concern and provide supplemental support for traditional SRF projects. A key priority of BIL is to ensure disadvantaged communities benefit equitably from this investment in water infrastructure. Through BIL, Congress mandates that 49% of the General Supplemental Funding be provided as grants or forgivable loans to communities that meet the State's affordability criteria. Communities not meeting these criteria are still eligible for funding but will be funded according to the State's [Subsidies and Affordability Criteria](#).

### ***BIL General Supplemental Capitalization Grant***

The State of Tennessee's Clean Water General Supplemental allotment for FFY 2023 is \$30,279,000. The State is required to provide a 10% match of federal funds, or \$3,027,900, to receive the full general supplemental allotment. The BIL General Supplemental Capitalization Grant plus State match will provide an additional \$33,306,900 available for CWSRF projects in SFY 2024.

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The funds needed for state match have been approved in the State of Tennessee general budget and will be appropriated when the grant has been received from EPA.

### **Clean Water State Revolving Fund Goals and Objectives**

Congress allows state CWSRF Loan Programs flexibility to design a program tailored to meet the needs of the state, local communities, and publicly owned wastewater treatment works. Tennessee's [CWSRF Loan Program](#) developed long and short-term goals as a framework for decisions Tennessee makes in the CWSRF Loan Program.

#### ***Long-Term CWSRF Goals***

1. Protect and enhance the water quality in Tennessee by ensuring the technical integrity and long-term sustainability of funded projects.
  - a. Objective: Ensure adequate and effective project planning, design, and construction management.
  - b. Objective: Maintain a priority ranking system and offer available funds to projects with the highest priority points that are ready to proceed.
2. Maintain the long-term financial integrity of the CWSRF Loan Program through the judicious use and management of its assets and by realizing an adequate rate of return, preventing fraud, waste, and abuse.
3. Maintain a self-sustaining revolving fund through the CWSRF Loan Program to provide local governments in Tennessee with low-cost financial assistance for wastewater infrastructure projects.
  - a. Objective: Ensure the use of accounting, audit, and fiscal procedures that conform to generally accepted governmental accounting principles.
  - b. Objective: Ensure the financial stability of loan recipients by reviewing the financial history, loan security, and proposed user rates of loan applicants.
  - c. Objective: Obligate funds in a timely manner and provide technical and administrative assistance for efficient project management.
4. Facilitate allocation of program resources to address the most significant public health and water quality compliance problems by actively working with these systems and the TDEC regulatory staff.
5. Promote the development of the technical, managerial, and financial capability of all publicly owned wastewater treatment works and stormwater systems to

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maintain compliance or meet state and federal compliance requirements.

6. Provide clean water assistance in an orderly and environmentally sound manner.
7. Assure that all new wastewater and stormwater systems funded by the program demonstrate a technical, managerial, and financial capability that meets state and federal regulations.

### ***Short Term Goals***

1. Manage an effective and efficient CWSRF Loan Program
  - a. Objective: Update administrative policies and guidance, including standard operating procedures for the CWSRF Loan Program.
  - b. Objective: Coordinate and work with the Comptroller of the Treasury to ensure the best financing alternative(s) for local governments.
  - c. Ensure internal coordination with the Department of Water Resources for state and federal regulatory compliance.
2. Provide funding assistance for developing and implementing local water quality protection initiatives.
3. Update the SRF website with new Asset Management Plan (AMP) guidance. The new AMP guidance meets the Fiscal Sustainability Plan (FSP) requirements mandated by the EPA and includes FSP elements.
4. Provide education and outreach to small and disadvantaged utilities and all SRF customers on the new AMP guidance document through our technical assistance providers.
5. Evaluate and assess expanding the loan process to include non-traditional eligible entities.
6. Partner with the Tennessee Department of Agriculture, Non-Point Source 319 program to promote water quality protection using 319 funds, CWSRF funds, and project leveraging.
7. Provide support and assistance to ensure compliance with state and federal water quality standards by all public, private, or nonprofit wastewater treatment works.
8. Expand the use of [Green Project Reserve \(GPR\)](#) funding to include more projects and encourage innovative use of SRF funds following EPA's guidance. The SRF Loan Program has elected to strive for a goal of up to 18% of grant funds to be used for



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innovative, green, or resilient projects.

9. Provide direct technical assistance to public, private, or nonprofit wastewater treatment works.
10. Expand and broaden our community outreach activities to ensure that publicly owned stormwater systems and wastewater treatment works are aware of and understand CWSRF assistance options and the loan application process by facilitating an annual statewide workshop to publicize the CWSRF Loan Program in coordination with Tennessee Department of Economic & Community Development and USDA-Rural Development.
11. Streamline the SRF business process to improve program efficiency, reduce loan processing time, and eliminate unnecessary, outdated requirements.
12. Ensure that all funds in the SRF and grant award are appropriately expended expeditiously and timely.
13. Update the CWSRF Priority Ranking system.
  - a. Host a listening session with SRF staff for recommended CWSRF priority ranking system updates.
  - b. Prioritize and develop recommendations for CW SRF priority ranking system updates. These updates may include but are not limited to, improved accounting for green infrastructure and stormwater management.
  - c. Beta-test recommendations using a subset of the most recent CWSRF Solicitation submissions and re-prioritize the list of updates.
  - d. Red-line CWSRF Loan Program Priority Ranking System rules based on the prioritized list and submit to the Water Infrastructure Funding program manager for potential rule updates.
14. Research other states CWSRF Loan Programs and conduct a cost-benefit analysis to recommend an alternate state match to support a sustainable funding source and reduce the CWSRF Loan Program's reliance on state appropriations for match funding.
15. Develop an approach to identify and assess emerging contaminants, including community outreach and education.

## **Clean Water Priority Ranking System**

TDEC's CWSRF Loan Program uses a priority ranking system to develop the [Priority Ranking](#)



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[List](#) (PRL). The State's CW SRF Priority Ranking System rules, Tenn. Comp. R. & Regs. ("Rule") Chapter 0400-46-01, provides a clear, objective order of ranking wastewater infrastructure projects. The PRL focuses on projects aiming to achieve optimum water quality management consistent with the goals and requirements of the CWA and the Tennessee Water Quality Control Act. The rationale for funding projects in an order other than that shown on the PRL shall be in accordance with the rules for the Priority Ranking System, Chapter 0400-46-01-.03. Exceptions to the order of funding may be allowed under special circumstances. Such projects would include those where unexpected failures requiring immediate attention to protect public health occur.

Applicants seeking funding must complete and submit a [CWSRF Questionnaire](#) detailing a project description, explanation of project need, project location, cost estimate, and project start and completion dates to the CWSRF Loan Program. Projects eligible for CW SRF funding are described in the [EPA Eligibility Handbook](#). Projects are prioritized by those that address reducing risks to human health or those working to maintain or improve water quality. All proposed projects for planning, planning and design or are ready to proceed with construction will be assigned Project Criteria Points based on the project criteria established in Rule 0400-46-01-.02(2). Project Criteria Points will be assigned to individual wastewater facilities projects based on the following:

### Eligible Project Categories

- Construction of municipal wastewater facilities
- Control non-point source pollution
- Decentralized wastewater treatment systems
- Green infrastructure projects
- Water quality projects
- Stormwater management
- Water conservation, efficiency, and reuse
- Brownfields
- Consolidation
- Recycled water
- Asset management
- Capacity management

- Wastewater treatment plant (WWTP) discharges to a water-quality impaired stream segment will receive 100 Project Criteria Points in addition to any other applicable Project Criteria Points. WWTP projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
- Wastewater collection system projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
- Nonpoint Source (NPS) pollution projects affecting a water-quality impaired stream

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segment will receive 100 Project Criteria Points. Other NPS pollution projects will receive 25 Project Criteria Points. NPS pollution projects may be directed toward protecting or improving the quality of groundwater, surface water, or wetlands. NPS pollution projects must be consistent with Tennessee's approved Nonpoint Source Management Program requirements and be included in the State's current EPA-approved Nonpoint Source Management Plan;

- Effluent-trading projects will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
- Combined Sewer Overflow (CSO) projects will receive 25 Project Criteria Points;
- Infiltration/Inflow (I/I) correction and major sewer rehabilitation projects will receive 25 Project Criteria Points. Construction of projects that will transport and treat I/I at the WWTP will receive 10 Project Criteria Points;
- Stormwater management projects affecting a water-quality impaired stream segment will receive 100 Project Criteria Points. Stormwater management projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points. All other stormwater management projects will receive 25 Project Criteria Points;
- Collection lines to be constructed to address an existing public health problem caused by failed septic systems will receive a minimum of 40 Project Criteria Points up to a maximum of 100 Project Criteria Points;
- Any wastewater project proposed for development or growth potential, i.e., projects not planned to address a water quality problem or a public health problem, will receive 5 Project Criteria Points. WWTPs that are required to serve new collectors as part of the approved facilities plan will receive the same Project Criteria Points as the collectors;
- Interceptors and pump stations will receive varying Project Criteria Points. Interceptors or pump stations that eliminate a WWTP discharge point included in an approved facilities plan will receive the same Project Criteria Points as the WWTP. Interceptors or pump stations proposed as part of an I/I elimination project will receive the same Project Criteria Points as the I/I elimination project. Interceptors or pump stations submitted as part of a collection system project will receive the same Project Criteria Points as the collection system project;
- Planning/Design projects will receive Project Criteria Points based on the proposed

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project type;

- CWA Section 212 projects that are also associated with the construction of nonpoint source projects shall have an additional 20 Project Criteria Points;
- CWA Section 212 projects with zoning that demonstrates preservation of greenspace shall have an additional 15 Project Criteria Points;
- CWA Section 212 projects with zoning that demonstrates riparian buffer zones of at least 150 feet shall have an additional 10 Project Criteria Points;
- CWA Section 212 projects demonstrating an enforced buffer zone ordinance shall have an additional 5 Project Criteria Points;
- Refinancing projects will receive 1 Project Criteria Point; and
- In accordance with Tenn. Code Ann. § 6-58-109(b), all SRF projects within counties with an approved growth plan will receive 5 Project Criteria Points in addition to any other applicable Project Criteria Points.

The assigned Project Criteria Points are calculated to determine the Priority Point Value for applicable projects. The Project Criteria Points are summed to establish a proposed project's Priority Rank. Projects will be placed on the PRL in descending order by total priority points. Projects with the same priority points will be ranked in ascending order based on the community's Ability to Pay Index (ATPI) and population to assist smaller and less affluent communities. Projects not ready to proceed with construction will not be assigned priority points but will be included on the bottom half of the PRL. Projects requesting funds for ineligible activities will not be assigned priority points or included on the PRL.

### BIL General Supplemental Capitalization Grant Projects

Suitable projects that apply for assistance may receive BIL funding. If BIL funding is provided for assistance, SRF will follow the same ranking criteria as the FFY 2023 CWSRF Loan Program's base-funded projects.

The CWSRF Loan Program may not assist any system:

1. that does not maintain an adequate level of financial capability to assure sufficient revenues to operate and maintain the wastewater facility for its useful life,
2. agree to the periodic adjustment of fees and services of the wastewater or stormwater facility to repay the loan in a timely manner\*,
3. agree to maintain financial records in accordance with governmental accounting standards,

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4. conduct an annual financial audit of the enterprise fund,
5. and provide any additional assurances as requested by TDEC (Rule 0400-46-06-.04(1)).

#### List of Projects

In accordance with section 606(c)(1) of the CWA, 40 CFR § 35.3150, the CWSRF Loan Program has developed a list of projects to receive funding in the first year after the grant award and a comprehensive priority list of eligible projects for funding in future years (CWSRF will maintain past PRLs). The PRL includes community information, project description, total priority points, the ATP, total project cost, funding source, associated wastewater facility information, anticipated FFY 2023 Base Capitalization Grant principal forgiveness, anticipated FFY 2023 BIL General Supplemental principal forgiveness, amount of GPR, anticipated construction start and end dates, and the EPA Needs Survey Category. The CWSRF PRL (Appendix) will denote CWSRF projects for which the total amount of assistance requested is at least equal to the amount of the FFY 2023 Base Allotment and BIL General Supplemental Capitalization Grants. In addition to the projects listed, the CWSRF Loan Program may consider additional loans for existing projects, projects carried forward from 2021 and 2022 PRLs, and other CWSRF-eligible projects. All projects awarded will follow the Intended Use Plan and policies in effect when establishing loan terms and conditions. The CWSRF project list may include NPS projects since the State's NPS Assessment and Management Program has been approved. Regardless of the year a project was listed on a PRL, CWSRF will use the most current policies outlined in the Intended Use Plan when applying principal forgiveness and other subsidies.

## **Criteria and Methods for Distributing Funds**

The primary use of the capitalization grant funding is for assistance to stormwater and wastewater utilities for capital improvements (infrastructure projects). This loan assistance can be any combination of planning, design, and/or construction. However, not all clean water compliance problems can be solved through capital financing for infrastructure improvements.

TDEC has determined that based on the projected total award dollars and the previous year's carry-forward balance, the CWSRF Loan Program can provide up to \$264,253,646 in project loans ([Table 1](#)). The SRF Loan Program will provide funding letters to all communities with projects on the 2023 PRL after the EPA loan award date. For the FFY 2023 Capitalization Grant, funding priority will be directed to projects ready to proceed with construction. This includes small and disadvantaged communities, green and resilient infrastructure projects, and projects with subsidies. Communities with projects on the CWSRF PRL may be bypassed

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based on failure to respond 90 days after being notified or are not ready to proceed. Project loans may be awarded each month depending upon a community's readiness to proceed and the scheduling of the Tennessee Local Development Authority board meeting.

### ***Subsidies and Affordability Criteria***

The FFY 2023 CWSRF Capitalization Grant requires states to use at least 20% of \$11,007,000, but no more than 30% of the capitalization grant amount to provide additional subsidy. The FFY 2023 BIL General Supplemental Capitalization Grant requires states to use 49% of the \$30,585,000 grant amount to provide additional subsidy. The state of Tennessee intends to meet this obligation by providing standard principal forgiveness subsidy to projects that meet small and disadvantaged communities or green project reserve criteria and are on the 2023 PRL.

The CWSRF Loan Program has developed multiple ways for communities and utility systems to benefit from SRF subsidies. Reduced interest rates (discussed in the [ATPI Reduced Interest Rates](#) section), principal forgiveness, and green project reserve subsidy are all financing options an applicant can explore in an attempt to reduce their overall financial burden for wastewater and stormwater infrastructure improvements. Communities and utility systems seeking infrastructure financing from SRF may meet the eligibility requirements in order to take advantage of the program's multiple subsidy strategies.

#### Base SRF Capitalization Grant Projects

1. Principal Forgiveness for Disadvantaged Communities: Communities with ATPIs of 50 or less are eligible for 20% principal forgiveness (up to a maximum of \$2,500,000 in principal forgiveness per project).
2. Priority Principal Forgiveness for Small Communities: 50% loan forgiveness for planning and design only, not to exceed total principal forgiveness of \$250,000 per project
3. Green Project Reserve (GPR) Principal Forgiveness: CWSRF Loan Program may award 20% principal forgiveness (up to a maximum of \$2,500,000 in principal forgiveness per project) if the project proposal incorporates a significant amount of green infrastructure, water and energy efficiency, or sustainable, resilient, and innovative practices. BIL General Supplemental Capitalization Grant Projects

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### BIL General Supplemental Capitalization Grant Projects

BIL Principal Forgiveness for Disadvantaged Communities: Communities may be eligible for 50% principal forgiveness (up to a maximum of \$5,000,000 in principal forgiveness per project) if they meet the qualifications found in the [Eligibility Requirements for BIL Principal Forgiveness](#) section of this document.

### ***ATPI Reduced Interest Rates***

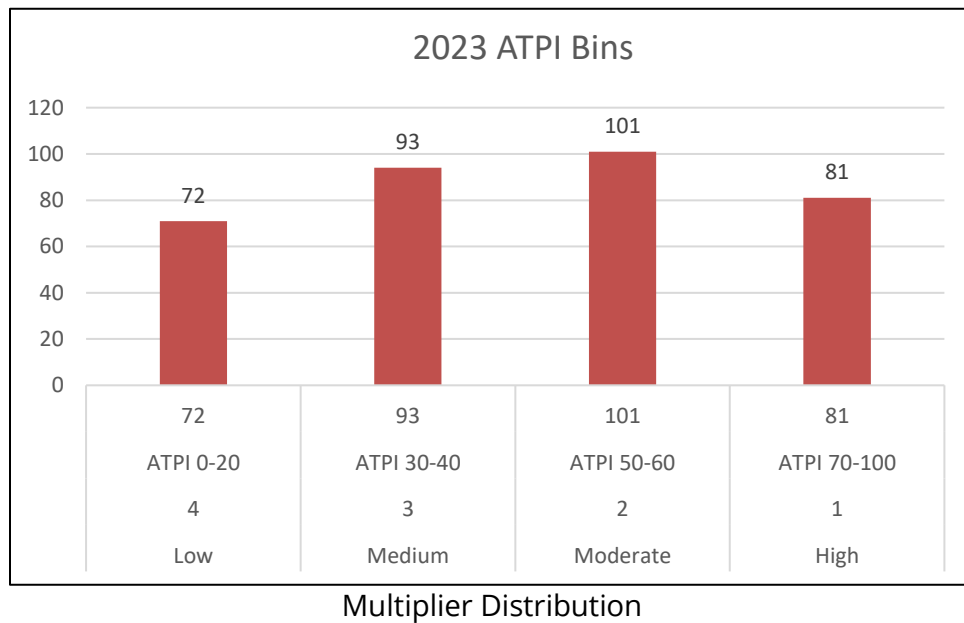
The State will use the ATPI to allocate CWSRF subsidies and interest rates. The development and use of the index are required for the administration of SRF loans by the Water Resources Reform and Development Act (WRRDA) of 2014, 33 U.S.C.A. §§ 2201 to 2355. The index is derived from a database of socioeconomic and financial data. It is used to assist in decision-making regarding interest rates, allocation of subsidies, and identification of options intended to benefit communities most in need. The index is determined based on a normal distribution of affordability scores for cities and counties. The affordability score is a simple average of nine (9) factors unique to each community. These factors: median household income, unemployment, food stamp dependence, families in poverty, community assets, revenues, debt, expenditures, and change in population determine a community's Ability To Pay Index value (ATPI). Tennessee intends to update the ATPI annually to capture the most current fiscal capacity, changes, and economic trends of communities across the state.

A community's interest rate will be based partly on its ATPI. Interest rates can vary from 40 percent of the interest rate reported for communities with a low affordability score and low ATPI to 100 percent of the interest rate reported on the 20-year, 25-year, and 30-year Bond Buyer Index and the Municipal Market Data General Obligation Yields published every Thursday. The interest rates for utility districts and water authorities that have service areas in more than one county will be evaluated and ranked by utilizing the lowest ATPI for the county or city that directly benefits from the project(s) associated with the loan.

The State has developed a tiered interest rate reduction methodology corresponding to a community's ATPI. Low-range ATPIs (0-20) will be awarded a 0.40 multiplier. ATPI scores ranging from 30-40 will be awarded a 0.60 multiplier, 50-60 will be awarded a 0.80 multiplier, and ATPIs of 70 or greater will receive the standard reported interest rates. SRF interest rates are further stratified by the term of the loan. Once loan terms are established, the appropriate base interest rate is selected. The community ATPI is verified, then the multiplier corresponding to the ATPI is multiplied by the base interest rate to establish the SRF awarded interest rate.

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Figure  
Interest



1: ATPI  
Rate

***Principal Forgiveness for Small or Disadvantaged Communities***

The CWSRF Loan Program continues to respond to requests from Governor Lee regarding rural community assistance by prioritizing the subsidy allocation for stormwater and wastewater infrastructure (in the form of principal forgiveness and lower interest rates) to communities identified as small or economically disadvantaged. Eligibility of CWSRF principal forgiveness for disadvantaged communities will be determined based on the most current ATPI. Small communities are defined as those with a population of 20,000 or fewer. To be considered disadvantaged, the community must score 50 or less on the ATPI. The affordability score in the ATPI will also be used to prioritize projects that have the same number of points from the PRL. Communities with a lower affordability score and smaller populations will be given a higher ranking.

As part of TDEC's effort to assist small, disadvantaged, and rural communities, CWSRF Loan Program has developed multiple subsidy options. All principal forgiveness options are awarded on a "first-come-first-serve" basis for eligible entities ready to proceed until funds are no longer available. CWSRF will work to maximize an entity's principal forgiveness where possible.

**Standard Principal Forgiveness:** 20% loan forgiveness, not to exceed total principal forgiveness of \$2,500,000 per project if funded through SRF Base Capitalization Grant.



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#### Eligibility Requirements

1. Communities must have an ATPI of 50 or less
2. Projects must be on the current PRL
3. Projects shall be ready to proceed (based on the type of loan)
4. Entity must pass a financial sufficiency review by CWSRF
5. Projects must include construction (planning, design, and construction projects or construction solely).
6. Standard principal forgiveness will not be given for planning or planning and design loans.
7. Can only be combined with Green Project Reserve (20%) principal forgiveness if 20% of the loan costs are dedicated to projects that qualify as activities under section 1.0 Green Infrastructure in the [2012 EPA Clean Water SRF Green Project Reserve Guidance](#).

**Priority Principal Forgiveness:** 50% loan forgiveness, not to exceed total principal forgiveness of \$250,000 per project if funded through SRF Base Capitalization Grant.

#### Eligibility Requirements

1. Communities must have a population of 20,000 or fewer
2. Projects must be on the current PRL
3. Projects shall be ready to proceed (based on the type of loan)
4. Entity must pass a financial sufficiency review by CWSRF
5. Projects include planning or planning and design only
6. Cannot be combined with other forms of Principal Forgiveness

#### ***BIL General Supplemental Capitalization Grant Projects***

Congress has mandated that 49% of funds provided through the CWSRF General Supplemental Capitalization Grant must be provided as grants or principal forgiveness. TDEC is providing principal forgiveness of 50% to eligible entities ready to proceed on a first come, first serve basis until the funds are expended.

**BIL Principal Forgiveness:** 50% loan forgiveness, not to exceed total principal forgiveness of \$5,000,000 per project if funded with BIL General Supplemental Capitalization Grant.

#### Eligibility Requirements

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1. Communities must have an ATPI of 50 or less
2. Projects must be on the current PRL
3. Projects shall be ready to proceed (based on the type of loan)
4. Entity must pass a financial sufficiency review by CWSRF
5. Projects must include construction (planning, design, and construction projects or construction solely).
6. Projects must include construction (planning, design, and construction projects or construction solely).
7. Cannot be combined with other forms of principal forgiveness

***Green Project Reserve (GPR) Principal Forgiveness***

The FFY 2023 CWSRF Capitalization Grant requires that a portion of the funds be allocated to GPR projects which address green infrastructure, stormwater, resilience, water or energy efficiency improvements, or other environmentally innovative activities. The State will allocate a minimum of 10% of the FFY 2023 project funds to fund eligible green projects. The State has elected to strive for a goal of 18% allocation for green projects.

The State will have met the GPR requirement when the minimum percentage of the capitalization grant for FFY 2023 is in executed assistance agreements for qualifying green projects. If a green project is underbid and the State has not met the required percentage for GPR, the difference between the amount in the executed assistance agreement and the winning bid must be used by the state for another green project(s).

Eligibility Requirements for Principal Forgiveness for Green Projects

All communities, regardless of size and ATPI, are eligible for principal forgiveness if the projects proposed meet specific eligibility requirements. All eligible green projects must appear on the current PRL, meet the Green Project Reserve project definition, and include construction. The amount of principal forgiveness is set to 20% of the loan, not to exceed \$2,500,000 in principal forgiveness per project. To be considered for FFY 2023 CW SRF GPR funding, not less than 20% of the total project cost must be used toward the green component. Projects should fall within at least one of the following categories: Water and Energy Efficiency, Green Infrastructure, and Stormwater BMPs, or Resilient, Sustainable, and Environmentally Innovative. Examples of projects that qualify for green project subsidy could include one of the following criteria:

1. Increase water efficiency

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2. Increase energy efficiency
3. Reduce stormwater runoff
4. Recycle/reuse water
5. Production/use of clean energy
6. Establish or restore wetlands
7. Reduce, prevent, or remove non-point source pollution
8. Build system resiliency from an identified hazard while addressing one or more criteria above

Eligible Green Project Reserve projects will receive principal forgiveness of 20% of the loan (not to exceed \$2,500,000 in principal forgiveness per project). These projects must meet EPA criteria and eligibility requirements for [GPR projects](#). Additionally, green projects will be drawn separately from FFY 2023 project funds until the 18% allocation has been met. The SRF Base Capitalization Grant or the BIL General Supplemental Grant will be used to provide GPR principal forgiveness as funds are available.

A detailed list of Green Project Reserve project eligibilities and examples of common practices can be found in the [EPA guidance](#) document.

### ***Loan Terms and Fees***

The term for an SRF loan from base funding or general supplemental funding will be a maximum of 30 years or the useful life of the project, whichever is shorter. The Office of State Government Finance charges a loan fee of 8 basis points (0.08%) for all CW SRF loans awarded on or after October 1, 2009. Fees collected fund State Government Finance personnel and operational costs associated with administering loans, payment disbursement requests, repayments, and fund management.

### ***Loan Recipient Project Requirements***

All CWSRF projects must comply with all current CWSRF rules, regulations, policies, and procedures provided in this section.

#### Davis-Bacon

The Davis-Bacon Act, 46 Stat. 1494 (Pub. Law 71-800), and Related acts apply to contractors and subcontractors performing on federally funded or assisted contracts over \$2,000 for the construction, alteration, or repair (including painting and decorating) of public buildings or public works. The Davis-Bacon Act (DBA) and Related Acts require contractors and subcontractors to pay their laborers and mechanics employed under the contract no less

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than the locally prevailing wages and fringe benefits for corresponding work on similar projects in the area. The Davis-Bacon Act directs the Department of Labor to determine locally prevailing wage rates. The Davis-Bacon Act applies to contractors and subcontractors performing work on federal or District of Columbia contracts. The prevailing Davis-Bacon Act wage provisions apply to the "Related Acts," under which federal agencies assist construction projects through grants, loans, loan guarantees, and insurance.

For prime contracts in excess of \$100,000, contractors and subcontractors must also, under the provisions of the Contract Work Hours and Safety Standards Act, as amended, pay laborers and mechanics, including guards and watchmen, at least one and one-half times their regular rate of pay for all hours worked over 40 in a workweek. The overtime provisions of the Fair Labor Standards Act may also apply to DBA-covered contracts.

Disadvantaged Business Enterprise (DBE) Goals

DBE reporting is required in annual reports. Reporting is required for assistance agreements where there are funds budgeted for procuring construction, equipment, services, and supplies, including funds budgeted for direct procurement by the recipient or procurement under sub-awards or loans in the "Other" category that exceed the threshold amount of \$150,000, including amendments or modifications.

The State of Tennessee has negotiated the following applicable Minority Business Enterprises (MBE)/ Women's Business Enterprise (WBE) fair share objectives/goals with EPA as follows:

MBE: CONSTRUCTION 2.6%; SUPPLIES 5.2%; SERVICES 5.2%; EQUIPMENT 5.2%

WBE: CONSTRUCTION 2.6%; SUPPLIES 5.2%; SERVICES 5.2%; EQUIPMENT 5.2%

In accordance with 40 CFR, Part 33, Subpart D, established goals/objectives remain in effect for three fiscal years unless there are significant changes to the data supporting the fair share objectives. The loan recipient is required to follow the requirements outlined in 40 CFR Part 33, Subpart D when renegotiating the fair share objectives/goals.

Pursuant to 40 CFR § 33.301, the recipient agrees to make the following good faith efforts whenever procuring construction, equipment, services, and supplies under an EPA financial assistance agreement and to require that sub-recipients, loan recipients, and prime contractors also comply. Records documenting compliance with the six good-faith efforts shall be retained:

1. Ensure DBEs are made aware of contracting opportunities to the fullest extent practicable through outreach and recruitment activities. For Indian Tribal-State and

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Local Government recipients, this will include placing DBEs on solicitation lists and soliciting them whenever they are potential sources.

2. Make information on forthcoming opportunities available to DBEs and arrange time frames for contracts and establish delivery schedules, where the requirements permit, in a way that encourages and facilitates participation by DBEs in the competitive process. This includes, whenever possible, posting solicitations for bids or proposals for a minimum of 30 calendar days before the bid or proposal closing date.
3. Consider whether firms competing for large contracts could subcontract with DBEs in the contracting process. For Indian Tribal, State, and local Government recipients, this includes dividing total requirements when economically feasible into smaller tasks or quantities to permit maximum participation by DBEs in the competitive process.
4. Encourage contracting with a consortium of DBEs when a contract is too large for one of these firms to handle individually.
5. Use the services and assistance of the Small Business Administration (SBA) and the Minority Business Development Agency of the Department of Commerce.
6. If the prime contractor awards subcontracts, the prime contractor must take the steps in paragraphs (1) through (5).

### American Iron and Steel

The American Iron and Steel (AIS) provision requires CW SRF assistance recipients to use iron and steel products produced in the United States. This requirement applies to projects for the construction, alteration, maintenance, or repair of a public water system or treatment works and if the project is funded through an assistance agreement executed beginning January 17, 2014, and is a permanent requirement for all CW SRF and DW SRF projects.

### Build America, Buy America (BABA) Act

The Bipartisan Infrastructure Law Title IX, Subtitle A, Part 1 requires all federal equivalency projects funded after May 14, 2022, to meet BABA requirements. BABA requires all the iron, steel, manufactured products, and construction materials used in the project to be produced in the United States. Iron and Steel products will still have to comply with AIS guidelines. For manufactured projects to meet BABA requirements, the cost of components that are mined, produced, or manufactured in the United States must be 55% or more of the total cost of all components, and does not include labor costs. Common construction materials include non-ferrous metals, plastic, and polymer-based products (including polyvinylchloride,

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composite building materials, and polymers used in fiber optic cables, glass (including optic glass), lumber, and drywall.

### Cost and Effectiveness Analysis

Under the CWA section 602(b)(13), the statute requires all assistance recipients meeting the definition of municipality or inter-municipal, interstate, or state agency to certify that they have conducted the studies and evaluations referred to as a cost and effectiveness analysis. The statute requires that a cost and effectiveness analysis involve, at a minimum: the study and evaluation of the cost and effectiveness of the processes, materials, techniques, and technologies for carrying out the proposed project or activity for which assistance is sought under this title; and the selection, to the maximum extent practicable, of a project or activity that maximizes the potential for efficient water use, reuse, recapture, and conservation and energy conservation, taking into account –

- The cost to construct the project or activity
- The cost of to operate and maintain the project or activity over the life of the project or activity; and
- The cost to replace the project or activity

A cost and effectiveness analysis is an eligible cost. CWSRFs can provide assistance for planning or engineering activities that involve this analysis; however, the certification must be provided before loan approval. This provision applies to all types of assistance provided to the public entities described above for which the recipient applies on or after October 1, 2015.

### Generally Accepted Accounting Principles (GAAP)

The State requires assistance recipients to follow CWA section 602(b)(9) and maintain project accounts according to Generally Accepted Accounting Principles (GAAP) as issued by the [Government Accounting Standards Board \(GASB\)](#). This provision requires assistance recipients to use standards relating to the reporting of infrastructure assets. The most recent applicable standard is GASB Statement No. 34 (GASB 34), issued in June 1999, which details governmental reporting requirements, including standards for reporting infrastructure assets. Further details on the requirements and the full text of GASB 34 can be obtained through the GASB.

### Fiscal Sustainability Planning – Tennessee’s Asset Management Plan

Fiscal Sustainability Planning (FSP), also known as the Asset Management Plan (AMP) in Tennessee, is a requirement under the WRRDA and CWA §603(d)(1)(E). It mandates that

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recipients of loans for projects involving the repair, replacement, or expansion of publicly owned treatment works must develop and implement an AMP or certify that they have done so. This requirement applies to loans with applications submitted on or after October 1, 2014.

AMPs should be treated as “living documents” that are regularly reviewed, revised, expanded, and implemented as an integral part of the operation and management of the system. At a minimum, the AMPs should include:

- An inventory of critical assets that are part of the treatment works;
- An evaluation of the condition and performance of inventoried assets or asset groupings;
- A certification that the assistance recipient has evaluated and will implement water and energy conservation efforts as part of the plant; and
- A plan to maintain, repair, and, as necessary, replace the treatment works and a plan to fund such activities

The State has determined that certification will be submitted to SRF before loan approval. The AMP must be completed and in place by the “Notice to Proceed” and made available for review by SRF staff upon the first interim construction inspection visit.

### Architectural and Engineering Procurement

According to the Amendments to the Water Resources Reform and Development Act, for any capitalization grant awarded after October 1, 2014, the State must ensure that all architectural and engineering (A/E) contracts for projects identified as using funds “directly made available by” a capitalization grant (i.e., equivalency projects) comply with the elements of the procurement processes for A/E services as identified in 40 U.S.C. 1101 et seq., or an equivalent state requirement.

To the extent possible, the State should identify all equivalency projects in its IUP. The State should also identify all equivalency projects in its Annual Report and specify whether those projects include any A/E services. Only the SRF-funded contracts for A/E services associated with equivalency projects must comply with this requirement.

The State intends to use one or a combination of the projects identified on the Clean Water Priority Ranking List (Attachment A) for the Cities of Springfield, Tullahoma Utilities Authority, Hamilton County WWTa, Jackson Energy Authority, or Lakeland to satisfy its CWSRF equivalency project requirements.



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## Sources and Uses of Funds

Required state match funds for the FFY 2023 Capitalization Grant is 20% of the federal allocation. The required state match funds for the FFY 2023 Clean Water BIL Supplemental Grant is 10% of the federal allocation. Additionally, with the carry forward dollar amount and allocated funds from the FFY 2022 Capitalization Grant, the State can provide up to \$264,253,646 for clean water projects.

Tennessee SRF is currently using cash flow modeling. This forecasting tool incorporates all inflows and outflows of the funds to estimate a state's capacity to make loans, ensuring the fullest possible utilization of all available SRF infrastructure financing resources.

<b>Financial Status of Funds for the CWSRF Loan Program</b>	
<b>Prior-Year (SFY2022) Carry-forward Funds*</b>	<b>\$ 136,950,682</b>
Principal repayments **	59,474,000
Loan Interest Income**	9,964,000
Treasury Interest Income**	796,000
FFY 2023 Base Capitalization Grant	10,897,000
20% of FFY 2023 Base Capitalization Grant matched by State	2,179,400
FFY 2023 BIL General Supplemental Capitalization Grant	30,279,000
10% of FFY 2023 BIL General Supplemental Capitalization Grant by the State	3,027,900
4% Administration from FFY 2023 BIL General Supplemental Capitalization Grant	(1,211,160)
<b>CWSRF Loan Program Project Funds***</b>	<b>\$264,253,646</b>
*Estimated balance at June 30, 2022, pre-year-end adjustments	
** Estimated principal, interest, and treasury interest for SFY 2023	

Table 1: Financial Status of Funds for the CWSRF Loan Program

## Administrative and Technical Assistance

The State intends to utilize up to 1/5 percent of the current valuation of the CWSRF Revolving Fund for administration and technical assistance, pursuant to section 603(d)(7) of the CWA. The valuation calculation shall be based upon "Total Net Position" of the Fund as determined

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by the Comptroller of the Treasury state fiscal yearend (June 30) and reported in the Annual Audit. The net position of the CWSRF fund balance for the SFY 2023 is yet to be available. Therefore, Tennessee SRF estimates that up to \$2,418,100 may be allocated for the administration, management, and operation of the CWSRF Loan Program.

The administrative support includes salaries and benefits of employees; travel of staff relating to project management, conferences, seminars, and workshops; technical assistance contracts; general office supplies; laptop computers; equipment purchases (as needed), communication; printing; and office rental space.

### ***Technical Assistance Set-Aside***

Section 50210 of the Bipartisan Infrastructure Law allows states to set aside up to 2% of the total Clean Water Capitalization Grant (Base allotment and BIL General Supplemental) to provide technical assistance consistent with section 603(k) of the CWA. The State of Tennessee is electing to reserve the right to utilize these funds at a later date.

### ***Program Assistance Contracts***

#### Ability To Pay Index (ATPI)

The EPA requires the SRF Loan Program to use an appropriate ATPI to administer SRF clean water and drinking water loans. In addition, the WRRDA requires that state SRF Loan Programs use relevant data associated with population trends, income, unemployment, and “other” metrics in the determination of priority ranking and project scoring, tiered interest rates, distribution of additional subsidy, and eligibility for planning and design loans or other benefits for disadvantaged communities. TDEC has contracted with the University of Tennessee Institute of Agriculture (UTIA) to update the ATPI annually for all TN counties, cities, and municipalities. The ATPI is a socioeconomic and financial data database that serves as the foundation for an affordability index used to help make decisions regarding determining interest rates, allocation of subsidy, and identification of options intended to benefit communities that need it the most. Through this contract, a consistent, transparent, and annually updated index is provided to improve decision-making in loan and grant administration by TDEC and the Tennessee Department of Economic & Community Development (ECD). The ATPI will also enhance coordination between TDEC, ECD, and Tennessee USDA-Rural Development regarding the potential use of resources to better serve disadvantaged communities.

Additionally, UTIA will develop recommendations to capture the actual cost of providing drinking water and wastewater services to communities and improve the efficiency of these

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systems. This information will be used to survey and gather information from public drinking water and wastewater systems. The data will be utilized to assist programs responsible for providing affordable funding for water infrastructure projects to improve services and the application process timeline for communities and utilities. The CWSRF will use allowable administrative funding for this purpose.

#### Targeted Technical Assistance and Training for Small and Disadvantaged Communities

The SRF Loan Program will continue to contract with the Tennessee Association of Utility Districts (TAUD) to provide targeted technical assistance to distressed or disadvantaged communities and will focus on technical, managerial, and financial capacity needs of wastewater systems; assist in reducing the occurrence of significant wastewater violations; optimize resources and support to small and disadvantaged communities and systems across the state. Technical assistance will be provided at no cost to eligible communities.

### **Annual Report Requirements**

Section 606(d) of the CWA requires that the State shall provide an Annual Report to EPA beginning the first fiscal year after receiving payments under the CWSRF. The Annual Report shall be submitted to EPA within 90 days after the end of the fiscal year covered by the IUP. This report shall identify loan recipients (name and identification number), loan amounts and terms, Green Projects, projects receiving subsidization (principal forgiveness), amount of subsidy, similar details on other forms of financial assistance provided by CWSRF, the population of the loan recipient, and additional such information as EPA may require.

### **Environmental Benefits**

To conform to EPA's Policy for Environmental Results under EPA Assistance Agreements, EPA Order 5700.7, and the Consolidated Appropriations Act of 2017, P.L. 115-31, The SRF Loan Program agrees to comply with all requests for data by EPA related to the use of the funds under Subchapter VI of the CWA, and to report all uses of the funds within the CWSRF Benefits Reporting database no less than quarterly. This reporting will include but not be limited to data for compliance with the Green Project Reserve.

### **Assurances and Specific Proposals**

The State shall provide the necessary assurances and certifications described in the Operating Agreement submitted as part of the Capitalization Grant Application. This Operating Agreement is the official agreement between the State and EPA and is

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incorporated herein by reference. Pursuant to sections 606(c)(4) (5) of the CWA, the State certifies that:

- The State will enter into binding commitments equal to at least 120% of each quarterly grant payment within one year after receipt of the payment
- The State will expend all funds in the CWSRF in an expeditious and timely manner
- Funds will first be used to ensure maintenance of progress toward compliance with enforceable deadlines, goals, and requirements of the CWA
- The State agrees to commit or expend each quarterly capitalization grant payment in accordance with the state's own laws and procedures

In addition, the State certifies that it will conduct environmental reviews on wastewater facility projects in satisfying the National Environmental Policy Act (NEPA)-like requirements. The State's NEPA-like procedures are contained in the approved Operating Agreement.

### **Amending the Intended Use Plan**

The SRF Loan Program reserves the ability to amend the IUP as needed to implement an efficient and effective program. Changes to the IUP that impact the administration of the program will be made public on the SRF website and through appropriate communication channels.

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### Appendix

[Priority Ranking List \(PRL\)](#)  
[Sources and Uses Table](#)

Appendix Clean Water State Revolving Fund (CWSRF) Sources and Uses Administered by Tennessee Department of Environment and Conservation - State Revolving Fund Loan Program State Fiscal Year July 1, 2023 - June 30, 2024				
Sources and Uses	Federal Contribution	State Contribution	CW SRF Fund	Total
<i>Funding Sources</i>				
Loan Repayments (P&I)			\$ 69,438,000.00	\$ 69,438,000.00
Investment Income			\$ 796,000.00	\$ 796,000.00
Banked Set Asides	-			
FFY 2023 Capitalization Grant	\$ 10,897,000.00	\$ 2,179,400.00		\$ 13,076,400.00
FFY 2023 BIL Capitalization Grant	\$ 30,279,000.00	\$ 3,027,900.00		\$ 33,306,900.00
<b>Totals for Funding Sources -</b>	<b>\$ 41,176,000.00</b>	<b>\$ 5,207,300.00</b>	<b>\$ 70,234,000.00</b>	<b>\$ 116,617,300.00</b>
<i>Funding Uses</i>				
Project Disbursements	\$ 39,964,840.00	\$ 5,207,300.00	\$ 70,234,000.00	\$ 115,406,140.00
Setasides Spending	-			
FFY 2023 Administration	\$ 1,211,160.00			\$ 1,211,160.00
<b>Total for Funding Uses -</b>	<b>\$ 41,176,000.00</b>	<b>\$ 5,207,300.00</b>	<b>\$ 70,234,000.00</b>	<b>\$ 116,617,300.00</b>